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A SMOKING GUN: PRESIDENT'S CLAIM THAT TAX CUTS PAY FOR THEMSELVES REFUTED BY ADMINISTRATION'S OWN ANALYSIS

By James Horney

In remarks on July 11 touting revised deficit projections in the Mid-Session Review of the Budget, President Bush once again claimed that tax cuts pay for themselves:

> "Some in Washington say we had to choose between cutting taxes and cutting the deficit….Today's numbers show that that was a false choice. The economic growth fueled by tax relief has helped send our tax revenues soaring. That's what has happened."[1]

These remarks mirror previous statements by the President, the Vice-President, and key Congressional leaders that the increase in revenues in 2005 and the increase now projected for 2006 prove that tax cuts "pay for themselves" — that the economy expands so much as a result of tax cuts that it produces the same level of revenue as it would have without the tax cuts.[2]

Economists and budget analysts outside of the administration have explained that these claims are not supported by data or economic theory.[3] *Now a Department of Treasury analysis presented in the Mid-Session Review itself confirms what outside experts have consistently said — tax cuts do not come remotely close to paying for themselves.*[4]

The Treasury analysis concludes that making the President's tax cuts permanent — and paying for the tax cuts with future reductions in spending — *may* ultimately increase the level of economic output (national income) in the long run by *as much as* 0.7 percent. (An increase in the level of economic output of 0.7 percent — the Treasury's best-case scenario — in 20 years would represent an increase of about 4/100ths of one percentage point in the annual growth rate of the economy.)

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[1] Remarks by the President on the Mid-Session Review, July 11, 2006: http://www.whitehouse.gov/news/releases/2006/07/20060711-1.html

[2] See Richard Kogan and Aviva Aron-Dine, "Claim that Tax Cuts 'Pay for Themselves' is Too Good to be True: Data Show No 'Free Lunch' Here," Center on Budget and Policy Priorities, revised June 14, 2006.

[3] Ibid.

[4] "A Dynamic Analysis of Permanent Extension of the President's Tax Relief," box on pages 3-4 of the *Mid-Session Review of the Budget for Fiscal Year 2007*.

Even if an increase in the level of economic output of 0.7 percent ultimately were to result from making the tax cuts permanent (the Treasury analysis concedes that the effect would be much smaller if the tax cuts are not paid for by cuts in spending[5]), and were to occur much sooner than Treasury seems to assume (it is not clear what the Treasury means by long-run, but it probably is considerably more than 10 years), the effect of this assumed additional economic growth would be to offset only a tiny fraction of the cost of the President's tax cuts. For instance, a 0.7 percent increase in the economic output that the Congressional Budget Office has projected for 2016 would represent an additional $146 billion.[6] If new revenues equaled as much as 20 percent of the additional output, the increase in revenues resulting from making the tax cuts permanent (assuming Treasury's best-case assumptions) would be $29 billion. That amount represents less than 10 percent of the $314 billion that the Joint Committee on Taxation estimates extending the tax cuts will reduce revenues in 2016 (not counting the effects of extending Alternative Minimum Tax relief).

Thus, even if the Treasury's most optimistic assumptions are accepted (and the dynamic effect is assumed to happen much more quickly than even Treasury seems to assume), the cost of the tax cuts in 2016 — taking into account "dynamic" effects — would still be *more than 90 percent* of the cost of the tax cuts under the standard cost estimates.

[5] Others, including the Congressional Budget Office, have concluded that cutting taxes without paying for the cuts may actually reduce output over the long term. See "Claim that Tax Cuts 'Pay for Themselves' is Too Good to be True."

[6] The Administration's projections of the economy only extend through 2011.